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ABSTRACT

Trends in higher education and the impact of the economy on colleges and universities in 1985 are considered. College enrollments, trends in the ability to pay, and private giving are examined, along with employment in higher education and college costs. Three possible explanations for unexpected growth in enrollment rates are: higher education is counter-cyclical in relation to overall economic activity; the number of older students has increased; and students are borrowing to pay their costs. It is claimed that the common belief that it is easy to pay for college is based on data obtained from a small, comparatively high-income group. In 1985, it is projected that the middle-income population will have greater difficulties with college costs, due to retargeting of federal student aid to lower-income students. It is also estimated that the sharp increases in corporate profits of 1984 will carry forward to increase private giving in 1985. However, two changes in federal tax laws will adversely affect incentives for private giving, and may adversely affect nonprofit schools that depend on private giving. While private contributions are being received, they are being used for current operations. Pressures on college costs and student tuitions are likely to continue. (SW)

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1985:
The Economic Outlook for Higher Education

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by Carol Frances

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First, let's look at 1984. The year will be prosperous for higher education. Colleges and universities are gaining financial strength in spite of the fact that adverse trends foreseen earlier have actually materialized. What is happening and what can these trends tell us about the outlook for 1985?

College Enrollments

College enrollments are 12 percent higher than predicted by people in the late 1970s who only looked at college-age population statistics.

In the five years since 1979, when the total number of 18 to 21 year-olds peaked, that "college-age" population group has, indeed, declined six percent, while total college enrollment increased seven percent by 1982, slipped an estimated half a percent in 1983, and half a percent again in 1984, for a net gain of 6 percent (See Chart 1). Colleges and universities have close to 1.5 million more students and $6 billion more revenues than predicted by the doom and gloomers.

College enrollments are holding despite the increasing difficulties students and their families face in paying the rapidly rising costs of college, and despite the failure of student grants to keep up with those rising costs.

Based on my work developing economic indicators, I think there are three explanations for these enrollment trends: First, higher education is counter-cyclical in relation to overall economic activity. Second, colleges and universities are continuing to increase the number of older students they serve. And third, students are borrowing to pay their costs.

Let's examine each of these explanations.

First, the impact of the economy on higher education has to be divided between long-term trends and short-term business-cycle effects. Over the long term, there is a high positive relationship between economic growth, increased income, greater investment in higher education, and increased enrollment. But over the course of the business cycle, short-term effects are superimposed on long-term trends. In most recessions, increased unemployment leads to higher enrollments because students without jobs go to college, either because they hope for higher incomes from better jobs later, or because their "opportunity cost" of going to college (that is, the cost to them of foregone earnings from going to college instead of working) is zero because they don't have jobs anyway. In general, total enrollments go up during recessions faster than the longer-run trend—overall, enrollments are counter-cyclical. (Of course, while total enrollments go up, different institutions have different experiences depending on the types of students they serve.)

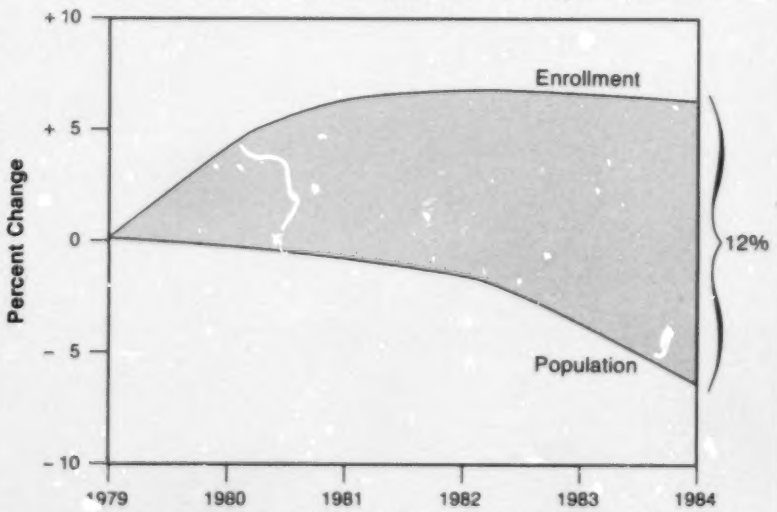
The number of unemployed individuals in the U.S. rose to almost 10 million people over the 1981 and 1982-83 recessions, and then declined in 1984. This may go a long way toward explaining the growth of enrollment from 1979 to 1982, and the slight decrease in 1983 and 1984.

The outlook for college enrollment in 1985 depends, then, at least in part, on overall economic activity and on employment and unemployment. In 1985, we can

Chart 1

TRENDS IN COLLEGE ENROLLMENT

As Compared With Trends in the College-Age Population



Source: Economic Indicators Project, Higher Education Industry Group, Coopers & Lybrand. Calculated using data from U.S. Department of Education, National Center for Education Statistics and U.S. Department of Commerce, Bureau of the Census.

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expect a maturing of the economic expansion and a slowing of growth. Even if job creation slows, some students might still be drawn from the educational sector into the labor force.

So, in 1985, colleges and universities face the compounding problems of business-cycle effects, with continuing economic expansion pulling people into the labor force, and demographic effects.

Though demographic effects have been over-emphasized in the past, they cannot, of course, be overlooked, particularly in the years 1984, 1985, and 1986 when these effects could be pronounced. In these three years, higher education will see almost forty percent of the total decline in 18 to 21 year olds occurring over the entire fifteen-year period from 1979 to 1994 (when the group starts to increase again). Year-to-year declines of over 500,000 young people are expected in each of these three years bringing the decline to over 1.5 million out of a total of 4.2 million over the 15 years (see Chart 2). This by no means implies that total enrollments will dip by that amount, as some have simplistically assumed.

One reason is that colleges and universities are continuing to increase the numbers of older students they serve. A recent dip in the number of women 25 and over enrolled in college led to speculation that the period of catch-up to the level of men's educational attainment was finished and, consequently, that the continued enrollment push from this source was over. Subsequent restoration of the upward trend in the enrollment of these women leads to the conclusion that this group may continue to enroll in college in greater numbers.

This expectation is buttressed by analysis of the differences in educational achievement levels between men and women of all ages, which shows that, while the levels are converging for young men and women and for men and women in their late sixties, women in between (who have not had the veterans' educational benefits and spousal support men have had) have a long way to go to catch up.

Borrowing resources to pay for college, the third factor helping to explain enrollment trends, can be examined in the context of overall trends in the ability to pay for college.

Trends in the Ability to Pay

The conventional wisdom since the late 1970s, based on government publications and private reports, is that while tuition has gone up, family income has gone up as fast or faster, therefore, tuition has not increased as a share of income, and therefore, it is not harder to pay for college.

Holding on to this conventional wisdom requires a stern disregard for experience. I have a son who has just graduated from college and two daughters who are still in college. I can tell you that their escalating bills don't square with the notion that the costs are easier to pay.

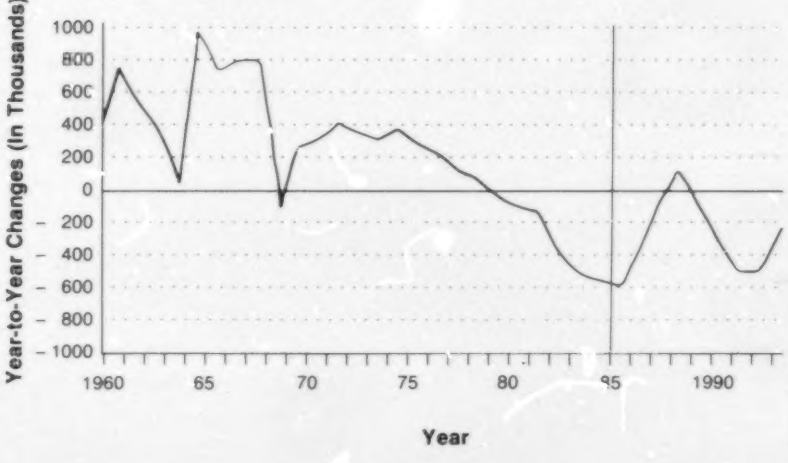
The conventional wisdom created an environment of misinformation in which the eligibility for student financial assistance that was expanded by the Middle Income Student Assistance Act of 1978 was rolled back in the early 1980s.

More comprehensive analysis of these economic indicators leads to the conclusion that the conventional wisdom on trends in ability to pay for college is wrong. There are two very simple facts that come out of this analysis. The first fact is that the income data used to compare trends in income and in tuition is data for a comparatively high income group, not for the average family. This is because the income data generally used in conventional analysis are collected by the Census for dependent students 18 to 24 years old who are members of primary families and are enrolled in college full-time. But these "traditional" students represent not much more than one-third of all the students.

The second fact is derived by using Census data to calculate the median family income of this traditional group of students. Analysis shows not only that the group is

Chart 2

CHANGES IN COLLEGE-AGE POPULATION, 18-21



Source: U.S. Department of Education, National Center for Education Statistics.

small but that its income is almost 70 percent higher than the income for the average family. Thus, the conventional wisdom about how easy it is to pay for college has been warped for years by relying on information that relates to a small, comparatively high-income group.

As the conventional wisdom is corrected, we are likely to see images of students who take out student loans to buy cars or to re-invest in money-market certificates replaced by images of students who are working two jobs, one a night shift, simply to stay in college.

In an effort to track students' ability to pay for college if they have to work their way through without any outside assistance, we developed an "index of effort" required to pay for tuition, room, and board at different types of colleges. As a proxy for how much students can earn, we used minimum wages, though some students earn less and some students earn much more. On this basis, it appears that a student would have to work close to half-time, year-round, to go to a public college, and full-time plus 700 hours of overtime to go to a private university. We should never underestimate the willingness of students to work, and some students are still able to work their way through college. But, we are left with a question of how much time they will find to study.

On Monday, October 22, Secretary of Education Terrell Bell held a press conference to release a new report, "Involvement in Learning," the work of a national study group that focused on strengthening undergraduate education. One of the major recommendations of the report is that students should become more involved in their own learning.

There is certainly a connection between the amount of time many students have to study and explore new ideas, and the time they have left after work because of mounting economic pressures.

A recent article by a Midwest professor in a national business magazine about his "button-down students" repeated the often-heard lament over the shift of students' concerns to preparing for jobs, and professors' longing for greater intellectual curiosity in the classroom. Reflect for a moment on the possible connection between the concern of recent student generations about preparing for jobs, and the fact that these students have to repay more than $40 billion in educational debts after they graduate.

Mounting economic pressures on students will have considerable impact on the basic nature of the academic enterprise in 1985 and for many more years to come.

In addition, we can expect a heightening in 1985 of the middle-income crunch, due to the re-targeting of federal student assistance to lower-income students.

Re-targeting federal student aid to lower-income students is appropriate public policy considering the fact that there are more low-income students. Census data show that there were 35 percent more people below the government-designated poverty line in 1983 than in 1979. But, the re-targeting of federal student aid is not appropriate public policy if it is based on an assumption that students from middle-income families do not need financial assistance to go to college.

Private Giving

Private giving is important to all colleges and universities. Historically, it has been a major source of both capital and operating funds for private institutions; it is increasingly important to public institutions as a source of funds to invest in program quality and innovation.

Private giving in 1985 will be affected by two cross-currents, the first positive and the second negative. First, trends in private giving of corporations, foundations, and individuals are related to trends in corporate profits. Profits are a direct source of corporate contributions to colleges and universities, and of contributions to company foundations that subsequently give to colleges and universities. Profits also increase the value of stock, and appreciated stock is a major form of large donations by individuals to colleges and universities.

As a result of the recent economic expansion, profits are up, cash flow is up, and dividends are up. Even if the rate of increase slows when the economic expansion matures, there is a forward momentum for at least a year because profits are first transferred to foundations before being granted to the recipients. So, the sharp increases in profits of 1984 will carry forward to increase private giving in 1985.

Two changes in federal tax laws adversely effect incentives for private giving, however, and may adversely effect nonprofit educational institutions that depend on private giving. 1981 tax reduction legislation had two provisions with potentially harmful effects on colleges and universities. The first reduced the marginal tax rates and, consequently, increased the cost of giving. The second increased the estate and gift tax credit; the amount parents can give to their children without being subject to federal taxes will increase from $175,000 to $600,000 over the six years from 1981 to 1987. This means that parents will have incentives to give funds to children rather than to charitable causes and educational institutions.

Table 1
VOLUNTARY SUPPORT
By Purpose
(Percentage)

	Capital Assets	Current Operations
1910	15.0	85.0
1920	11.3	88.7
1930	18.6	81.4
1940	40.7	59.3
1950	42.1	57.9
1960	47.2	52.8
1970	54.9	46.1
1980	57.3	41.7
1982	59.1	40.9

Sources: Council for Financial Aid to Education, and U.S. Department of Education, *Digest of Education Statistics*, Annual Editions.

Overall, 1985 should be a good year for seeking private contributions, provided that appeals to potential donors are framed in a manner that overcomes increases in the cost of giving.

While the outlook for private voluntary support is favorable, analysis of economic indicators

points to another potentially serious concern. As shown on Table 1, at the turn of the century, 85 percent of voluntary contributions to higher education institutions were used for capital purposes, to invest for the benefit of future students, and only 15 percent were used for current operations, primarily to balance budgets. In recent decades, the share of private support used for current operating purposes quadrupled—from 15 percent to 60 percent.

This means that while private contributions are coming in, they are being used for current operations. So, in institutional finance, as well as in student finance, there is an inter-generational shift, and the effects of inflation are being shifted to future generations of students. This use of voluntary support primarily for budget balancing instead of for investment in the future may have significant long-term effects on the vitality of the higher education enterprise.

Employment and Costs

Total employment in higher education increased throughout the late 1970s up to 1982. The first time in recent history that there was a year-over-year decrease in total employment in higher education was in early 1982. Government data indicate that total employment in higher education declined from 2.24 million to 2.19 million. Now, more recent data indicate that employment has begun to regain its slight upward trend.

If the numbers of students being taught have increased more than the numbers of faculty and staff, and if the quality of education has not deteriorated, then colleges and universities are increasing their productivity.

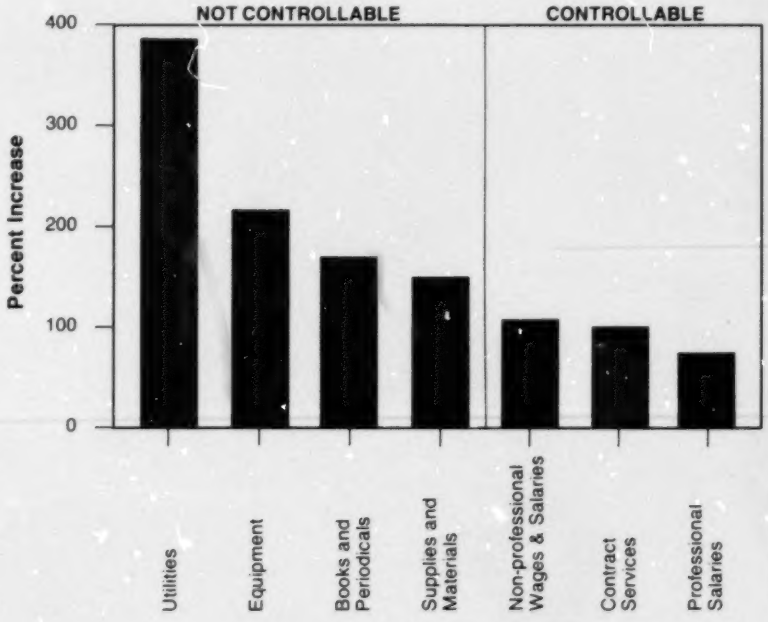
Costs in higher education (see Chart 3) can be expected to go up faster than costs in 1985 and possibly for the next several years. The reason is that, over the 1970s, faculty members lost close to a quarter of the purchasing power of their base salaries. It may take several years to compensate for the accumulated loss; doing so will put continued pressure on college costs and student tuitions.

In 1985, colleges and universities are likely to see the first big wave of after-effects from the break-up of AT&T, as technological and business competition in telecommunications opens up. The first questions will be how to sort through the dazzling array of technological alternatives to decide on the most cost-effective communications systems. Also in 1985, colleges and universities are likely to see intensified strains on their operating costs and capital budgets as they seek to introduce these new technologies.

Chart 3

COST INCREASES IN HIGHER EDUCATION

Percent Increase 1972-1982



Source: K. Halstead, Higher Education Price Index.

Over the next few years, colleges and universities will confront the subsequent waves of after-effects, with perhaps far more profound effects of the new technologies on what is taught, who is teaching, who is taught, and where it is taught. Colleges and universities potentially face new forms of competition from other providers of education services—who are not colleges and universities. When computers are successfully linked with telecommunications, college campuses are likely to see more change in the delivery of education services in the next ten years than in the last thousand years.

A final observation: Economic forecasters have been notoriously wrong in their forecasts, because they have underestimated the strength of the economy. Likewise, higher education planners have been notoriously wrong in their forecasts because they have underestimated the resilience of colleges and universities. The economists and planners have been wrong time and time again.

As we look toward 1985, it is important to ask, why have these "experts" been wrong so much?

My observation is that all that the forecasters and planners work with is numbers. But, numbers do not shape the future. The future is shaped by people with ideas. When you talk to people on most college campuses, you talk to people who are, indeed, armed with numbers, but they are also exhuberant with ideas. Whatever the outlook for others in 1985, the people with ideas are going to have better prospects. ■

A presentation based on these economic indicators was made at the annual meeting of the Association of Urban Universities on the campus of Georgia State University in Atlanta on October 26, 1984.